Rethinking the cross-border acquisition process in terms of territorial social responsibility

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Abstract: Mergers and acquisitions are usually analysed as an outcome of the buyer’s strategic decision-making process, while the position of the target company and its stakeholders is often under-researched. Thus this paper aims to analyse acquisitions from the point of view of the selling firm’s stakeholders and understand their role in these operations. An in-depth examination of a case study reveals that stakeholders’ needs can be at the forefront of the operation and that deep involvement in a local community can affect the decision of the owner to sell his/her company to foreign investors perceived as a potential threat to the local environment. Results confirm that in Italy there is the presence of a collective desire for social responsibility within the territory.

Keywords: international acquisition; social responsibility; territorial responsibility; local environment; small and medium-sized firms; SMEs; interpretivism; case-study; Chinese firm; stakeholder approach; cross-border acquisitions.


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1 Introduction

Mergers and acquisitions (M&As) have been extensively analysed by the international literature. Yet it is still difficult to understand why so many deals fail (Bower, 2001; Meglio and Risberg, 2012). Researchers have tried to predict successful M&As and guide managers’ strategic planning on the basis of economic, financial and strategic aspects, while less attention has been devoted to the role of the local context (e.g., social norms, values, customs, regulations). On the contrary, we believe that the territorial context can strongly influence how such operations are handled. Cultural and institutional aspects can shape the different interests and expectations of the actors involved inside and outside the companies (Weber et al., 2009, 2012). This is especially true in Western Europe, where stakeholders are attentive to firms’ behaviour and demand great attention to local issues of social, economic and environmental equilibrium (Commission of the European Communities, 2001a, 2001b; Baughn et al., 2007). Concerns mainly regard investors from emerging countries, like China and India, which are characterised by lower levels of corporate social and environmental responsibility (Baughn et al., 2007) and seem to have little sense of commitment to local communities (Hall, 2006). In China, reporting on corporate socially responsible behaviour is a very recent issue (Britzelmaier et al., 2012) and the arrival of Chinese investors in Europe has provoked unease concerning job losses and other negative effects for the local economy (Pfoertsch and Liu, 2013).

Consequently, following the stakeholder approach (Freeman, 1994, 2006; Freeman et al., 2010), which suggests that firms must consider local needs and the expectations of all stakeholders in order to gain legitimisation and survive in the long term, we aim to analyse M&As from the point of view of the selling firm’s stakeholders and discover their actual degree of influence on these operations.

From a methodological point of view we have interpreted this phenomenon as a process involving many actors with different perspectives (Risberg, 2001), rather than as a one-time event with few actors (Jemison and Sitkin, 1986). Thus, instead of focusing on the outcomes of M&As from the buyer’s perspective and searching for number-based variables, we tried to appreciate operations through the constructions of a plurality of stakeholders as suggested by Meglio and Risberg (2010).

The study adopts a qualitative and inductive approach which is more appropriate when research aims to understand how business is conducted (Dana and Dana, 2005). A single case study is analysed. Methods of data collection involve open-ended interviews and a complete review of relevant newspaper articles pertaining to the acquisition of an Italian motorcycle manufacturer.

In particular, the study investigates a Chinese group’s acquisition of a historic Italian company that boasts long-lasting involvement and brand recognition in the territory in which is located. The case study will help answer our research question, i.e., whether local stakeholders play an active role in the acquisition process and if expectations of social responsibility can be strong enough to influence the selection of a partner and the negotiation of acquisition contract terms.
2 Literature review

2.1 New perspectives on M&As emerging in the last decades

The literature on M&As is considerably mature and vast (Gaughan, 2007), however, researchers have yet to develop an overall theory about M&As that can fully explain the functioning of this phenomenon and predict its outcomes (Bower, 2001).

Among the different factors that have contributed to this knowledge deficiency (Meglio and Risberg, 2010), we believe that an important gap in the literature is due to the fact that M&As are mainly analysed from either the buyer’s or seller’s point of view – which are considered as two homogeneous organisations – while other stakeholders’ interests are almost ignored. Most of the studies examine these operations from the buyer’s shareholders perspective. In very few cases the seller’s perspective is considered (Graebner and Eisenhardt, 2004; Dalziel, 2008; Graebner, 2009). Furthermore, studies are theoretically based on the mainstream literature which views M&As as strategies to create shareholder value (Rappaport, 1981; Chatterjee, 1992; Loughran and Vijh. 1997).

Only from the late 1990s, some researchers began to suggest that the creation of shareholder value in M&As can reconcile the interests of all the company’s disparate stakeholders (Guatri, 1998; Jensen, 2002). They proposed other concepts of value creation – such as job creation, social stability, and the generation of carrier opportunities – suggesting that managers should make decisions about M&As that will balance all stakeholders’ interests (Haspeslagh and Jemison, 1991).

Especially in Europe and Japan, the value expected from a merger can be understood differently. Here employees, trade unions, pension funds, public agencies and local authorities are becoming more and more active in spelling out their views on how value should be created, putting pressure on the executives of large firms (Gomez and Korine, 2005). Therefore, in case of corporate acquisitions and factory closures, managers are engaged in searching for legitimation of their actions (Granlund, 2002).

Additional contributions have come from a recent body of studies which propose alternative methodological approaches such as interpretivism (Risberg, 2001; Meglio and Risberg, 2010) to capture the dynamic and complex nature of M&As. Interpretivist approaches consider such phenomena as processes, a sequence of incidents and activities occurring in a specific context, which should be observed longitudinally and from the different actors’ points of view (Risberg, 2001; Söderberg, 2006; Meglio and Risberg, 2010). In other words, they contest the traditional positivistic mindset and consider M&As as people’s constructions (Guba and Lincoln, 1994). The conception that M&As are constructions (which can be plural) is extremely helpful since it highlights how people experience M&As processes, their beliefs and attitudes.

Furthermore, we suggest that, when analysing M&A operations, especially in the context of developed European countries, increasing attention should be paid to corporate social responsibility (CSR) by public and private organisations, individuals and communities. These actors should not be disregarded, since they actively participate in defining the proper social role and responsibility of corporations and strongly contribute to legitimise or delegitimise socially contested corporate acquisitions (Joutsenvirta and Vaara, 2009).
2.2 Time to rethink M&As in light of social responsibility

Although there is no commonly accepted definition of CSR (Dahlsrud, 2008), this concept usually refers to the integration of social and environmental concerns in the enterprises’ business model and their voluntary interaction with their stakeholders (Carrol, 1999; Habish et al., 2005; Crane and Matten, 2007). The European Union is actively involved in fostering CSR. The sustainable development strategy for Europe, approved in June 2001, states that “in the long term, economic growth, social cohesion and environmental protection must go hand in hand” (Commission of the European Communities, 2001a). Several documents have been issued aiming to influence socially responsible behaviour in terms of both public policies and private initiatives.

With reference to businesses, CSR is largely associated with big companies. However, recent research reveals that many small enterprises are engaged in CSR (Vo, 2011; Vazquez-Carrasco and Lopez-Pérez, 2013). Their initiatives are usually related to firms’ involvement in the local community in which they operate (European Commission, 2002; Jenkins, 2004, 2006; Murillo and Lozano, 2006; Perrini, 2006; Russo and Tencati, 2009). SMEs support schools, sports clubs, cultural institutions and social services like hospitals and nursing homes of their territorial context, through donations, sponsoring, and technical support, as well as personal and voluntary commitment of the business owners (Longo et al., 2005). SMEs, however, act only implicitly rather than explicitly (Matten and Moon, 2008). CSR is defined informally and SMEs involvement in the local area is often not communicated (Morsing and Perrini, 2009).

The implementation of socially oriented SMEs programs concerning the local environment is facilitated by SMEs’ participation in networks characterised by the presence of a plurality of interests, both public (chambers of commerce, universities and research centres) and private (trade associations, non-profit organisations, credit institutions) (Murillo and Lozano, 2006, 2009; Lepoutre, 2006). These networks are based on informal and tacit relationships but they appear to be foundational in developing policies and strategies tailored to CSR. They are based on a stock of social capital (Spence and Schmidpeter, 2003; Spence, 2007; Russo and Tencati, 2009), that tends to be self-reinforcing and cumulative (Perrini, 2006).

In such a situation, when there is a common purpose to improve the quality of life of the local community that ties together individuals and organisations belonging to the same region, it is possible to introduce the notion of territorial social responsibility – TSR (Del Baldo, 2013). This concept shifts the perspective of CSR to a vision of the collective. Responsibility is no longer solely the realm of the individual firm, called to relate to the collective, but rather it is the whole community – the territory – which comes to be conceptualised as a totality (Roberts et al., 2006; Matacena and Del Baldo, 2009; Murillo and Lozano, 2009; Del Baldo, 2010; Del Baldo and Demartini, 2012a, 2012b).

This approach can be applied only in specific social and economic contexts where all local actors, public and private, have absorbed a common culture that spreads mutual values with respect to the way business is run. That is the case of Italy. Existing literature (Becattini, 1991; Becattini and Coltorti, 2006; Goodman et al., 1989; Perrini, 2006; Grandinetti, 2014) reveals that there are some territories where local actors share a collective identity that arises from a communal past in the region where they live (Braudel, 1992; Putnam, 1993). Thanks to a solid network of relationships, these actors know how to reinforce these values, transform conflicts into opportunities and foster economic development ‘without fractures’ (Fuà and Irwing, 1991). Salient examples are
the regions of Tuscany, Emilia Romagna, Lombardy, Veneto and Marche, which are all characterised by the same industrial development model (i.e., the Third Italy).

Drawing from the above considerations, we suggest that in this type of region, local stakeholders can play an influential role in the process of a company acquisition, especially when the company represents an important brand for the territory in which it is located and the potential buyer is perceived as an external actor that can destroy the existing *milieu*. Local stakeholders (i.e., the owner of the targeted firm, workers, local associations, public authorities, and the citizens as well) may react to the acquisition not only to safeguard their own interests, but also to protect the well-being of the community to which they belong. Their behaviour is due to the conviction that their own benefit is related to their existing relationships with other local actors.

Owners – especially small business owners – base their understanding of performance on the legitimacy and consensus they receive from local actors. Therefore, if they intend to continue doing business in the same area after selling the targeted company, they should not betray local stakeholder expectations – especially workers’ trust and the support of public authorities. Managers and employees might be particularly interested in preserving their jobs in that specific type of company, where the dialogue between people of different hierarchical levels is eased by informal relationships which improve the business climate and increase workers’ involvement. Local authorities are aware that the welfare of the community they represent is based upon the survival of these kinds of companies, which, through the cluster district model, have favoured the industrial development of the region (Sancassiani, 2005; Battaglia et al., 2010). Finally, local citizens consider these kinds of firms, especially old and famous brands, as a form of heritage that must be defended.

In light of the above, in those specific areas where the TSR approach can be applied, we propose the following:

- local stakeholders can play an influential role in the decision to sell a company representing a milestone for the local community
- local stakeholders are defined not only by territorial proximity, but also by shared values, attitudes and interests that must be defended throughout an acquisition process.

### 3 Research methodology

In order to understand the impact of various stakeholders on the fulfilment of an acquisition, we conducted a qualitative fieldwork among all local stakeholders that have an interest in the target company involved. As Risberg (2001) suggests, it is not sufficient to analyse the acquisition process from the CEO’s or shareholder’s perspective. To identify all possible stakeholders’ claims and their interactions with the process of acquisition, other views should be considered.

In other terms, local stakeholders’ expectations represent an important aspect of the environment, which may shape managers’ and owners’ decision-making process. Thus, like for entrepreneurs, their decisions and activities can be fully understood only by analysing the local environment and in particular, the cultural context (Dana and Dana,
This can lead to a deeper holistic understanding of what really happens in organisations before, during and after a merger or acquisition.

The theoretical paradigm underlying our research is the interpretivist model (Guba and Lincoln, 1994; Crotty, 1998). In light of interpretivism, sociological phenomena cannot simply be observed but must also be interpreted by the researcher. This means that reality is not an objective fact but is grounded in subjective experiences, nor there is one absolute reality, but rather different possibilities generated by the perspectives adopted to interpret the facts (the ontological dimension). Moreover, there is no separation between the researcher and the subject since the process of understanding derives from deductive-inductive development (the epistemological dimension) [Ryan et al., (2002), p.35].

Consistent with the above-mentioned theoretical paradigm, we adopted a qualitative approach based upon the field case study, which helps researchers to study context and environment (Dana and Dana, 2005). The case study method is appropriate because it embraces the holistic characteristics of a contemporary phenomenon “within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident” [Yin, (2003), p.13].

In particular, we focus on the acquisition process of Benelli, an Italian motorcycle manufacturer located in the Marche Region. A single case study may hinder generalisation, however it can also be a very powerful example (Siggelkow, 2007). Benelli could represent a paradigmatic case study. On the one hand, Benelli boasts long-lasting involvement and a recognised brand in the territory in which it is located. In the Marche Region, socially responsible values, attitudes, and behaviours are largely widespread among local actors (Del Baldo, 2010). On the other hand, the buyer comes from a country, China, which is typically perceived as resistant to transparency and composed of unfair economic players (Peng, 2004; He and Lyles, 2008). Negative reactions arise when Chinese companies invest in Western economies because their arrival usually signals a negative impact on local labour conditions, as well as the potential loss of sensitive knowledge and technology which may be transferred to the foreign headquarters (Wu, 2005; Antkiewicz and Whalley, 2006; He and Lyles, 2008; Globerman and Shapiro, 2009).

To provide background and contextualisation to our study, we researched the company profile and undertook a review of media coverage concerning M&As within this particular industry sector. Sources included academic reviews, specialised journals, the firm’s website, annual reports and other available documents. In addition we collected all newspaper articles describing Benelli’s acquisition from the first rumours (June 2005) to the definitive signing of the contract (end September 2005) for a total of 62 articles.

As suggested by Vaara et al. (2006), press coverage can provide important information since the journalistic practice tends to play with multiple perspectives and rationalities. Media texts represent the arena where contested acquisitions are legitimised or delegitimised (Joutsenvirta and Vaara, 2009), and help reconstruct issues regarding M&As (Hellgren et al., 2002; Vaara and Tienari, 2002; Risberg et al., 2003).

Information derived from newspapers has been interpreted by researchers to construct and delineate different stakeholder perspectives, behaviours, and motives for pressing the firm’s main shareholder to sell or not to sell the company to the foreign buyer. In qualitative studies, researchers do not impose a priori categories or hypotheses before collecting data (Dana and Dana, 2005). Thus, meanings have been attached to public speeches and actions reported in newspapers. Newspapers were also used to identify the
key actors involved in the event. Only a few actors were cited frequently and we interviewed all of them: a trade union representative, the mayor of the city, two top Benelli managers, and the shareholder’s representative delegated to negotiating with the buyer. Five interviews have been done in total, which lasted from one up to two hours. They were transcribed and analysed.

Open-ended interviews were conducted using a questionnaire derived from the case study protocol, so that comparable data could be obtained (Merton et al., 1990). Questions focused on informants’ perceptions of the role that diverse stakeholders had played in the phase of partner selection and contract negotiation (before company integration), the behaviours they adopted, and the interests that the diverse stakeholders intended to cultivate. Obviously, these actors are also carriers of the interests of the group from which they come.

Informants’ interviews do not represent any ‘truth’ of what happened. They represent their sense making of the acquisition process in retrospect (Weick, 1995). Thus stories may differ between informants.

4 Case study analysis

4.1 The motorcycle industry and the acquisition of Benelli

This case study focuses on a company operating in the motorcycle industry. This industry includes the production of scooters and motorcycles (heavy bikes). Market leaders are Japanese manufacturers such as Honda and Yamaha. However, Europe still remains a leading production base for powered two-wheelers where Ducati, Aprilia, Triumph, BMW, KTM and other worldwide known brands were born.

This industry represents an interesting area of analysis for M&As. Its global scale and complex value chain have engaged a plurality of international players over the last few decades looking to acquire other companies to enter new markets, obtain strategic assets and increase economic efficiency. Examples are the acquisition of Italian MV Agusta by Malaysian Proton in 2004 and its subsequent sale to Harley Davidson in 2008 and BMW’s acquisition of Swedish Husquavarna in 2007. Moreover new manufactures from BRIC countries, which compete on the lower segments of the market, are entering Europe to acquire technology, brands and expertise.

Lastly, it is a significant sector both from an economic and social point of view, which directly employs 38,000 people (152,000 people including upstream and downstream activities) in Europe. Manufacturing is concentrated in five European countries, with Italy playing a prominent role (ACEM, 2005, 2008). Very similar to automobile manufacturers in their distribution philosophy and manufacturing organisation, today’s motorcycle companies are organised along a complex value chain composed of different suppliers and partners. Thus, when a leading firm goes bankrupt the negative economic and social consequences may spread to an entire business network or region.

The target company, Benelli, is a motorcycle manufacturer established in Pesaro, Italy, in 1911 by Teresa Benelli, a widow who put all her family capital into a repair shop for motorcycles to create stable work for her six sons. After ten years, the repair shop became a manufacturer of motorcycles and produced its own engines. Notoriety arrived when Benelli began participating in national competitions. In the 1960s it was producing
about 300 motorcycles per day and employed 550 people. During that period, Benelli represented an important part of the Marche Region’s industry. Several outstanding entrepreneurs of today have worked and acquired their skills there and some important companies of the motorcycle industry (such as MotoBi) and other manufacturing sectors (such as Biesse) developed as offshoots of Benelli.

Towards the end of the 1960s, the arrival of Japanese manufacturers caused an unprecedented crisis in the European motorcycle industry. Benelli stopped the production and was sold to DeTomaso Industries Inc., which then merged with the Italian Moto Guzzi in 1988. There was hope of a revival in 1989 with the backing of a local manufacturer (Giancarlo Selci), but expected results did not arrive. In 1995 Benelli was acquired by the Indesit Group owned by the Merloni family (a family native to the Marche Region and famous for its strong commitment to this territory). Unfortunately financial difficulties connected to the enormous investments required by continuous innovation and quality motorcycle manufacturing forced the management to stop production in 2005 and put the company into liquidation.

Faced with these difficulties, the Merloni family began to search for a possible buyer. After several refusals from Italian entrepreneurs, they began an intense period of negotiation with John Galt Investment Ltd, a company owned by the Russian Smolensky family. Initially started as a sort of organisational rescue (Pritchett, 1997), the negotiation quickly ran into problems and became a contested acquisition because the Russian buyer did not have any future plans for the manufacturing unit in Pesaro. The brand, the company’s technology and all expertise were destined to be transferred abroad. Trade unions, local authorities and the local community began to speak out in several articles on regional newspapers questioning if this was the only alternative available.

Then, Merloni, together with the management staff, identified another possible buyer – the Chinese QJ Group. The latter proposed an industrial plan forecasting the resumption of motorcycle production in Pesaro and the development of new product lines along with the future employment of additional workers. This offer was attractive to both the main shareholder and Benelli’s other stakeholders. Moreover, representatives of QJ Group demonstrated a significant concern for stakeholders’ expectations (especially those of the local authorities) by participating in public meetings with both political representatives of the municipality and company employees. QJ was willing to explain its future actions to local stakeholders while the Russian family considered the operation as a simple financial negotiation between owner and buyer and did not respond to the demands of Benelli’s stakeholders. This difference probably induced Benelli’s personnel and other stakeholders to perceive the future Chinese owner positively and to be cooperative.

The strategic fit between the two firms was also important. On one hand, QJ was a large Chinese corporation with massive financial capital to invest, high production capacity and an established distribution network in Asia, and was looking to improve its innovation capabilities and existing quality standards to satisfy Western customers. On the other hand, Benelli was a small Italian manufacturer in financial difficulty, incapable of gaining access to the large Chinese market but with long-term experience in the motorcycle industry and a recognised brand based on Italian design, quality, and innovation which could provide advanced technology and significant know-how.

In three months the contract with Smolensky family was cancelled and Benelli was acquired by QJ Group.
4.2 The stakeholders’ role in the acquisition process

4.2.1 Relevant categories of the case study

The following section will specifically concentrate on the role of local stakeholders in the process of acquiring Benelli. Information gathered from newspapers and interviews with the five key actors was compiled into categories considered relevant in answering the research question. This allows the researcher to order the evidence prior to interpreting it. Categories refer to:

- local stakeholders’ influence in partner’s selection
- local stakeholders’ behaviour
- local stakeholders’ expectations
- local stakeholders’ influence on contract negotiation.

Each category is defined by raw codes. Codes are tags or labels for assigning units of meaning to the descriptive information compiled during a study (Miles and Huberman, 1994).

<table>
<thead>
<tr>
<th>Categories</th>
<th>Raw codes/labels</th>
</tr>
</thead>
<tbody>
<tr>
<td>local stakeholders’ influence on partner’s selection</td>
<td>high, low, none</td>
</tr>
<tr>
<td>local stakeholders’ behaviour</td>
<td>proactive, reactive, none</td>
</tr>
<tr>
<td>local stakeholders’ expectations</td>
<td>maintaining the local setting, preservation of job, preserving their own category’s economic interests, maintenance of Benelli know-how; survival of the Benelli brand; safeguarding community welfare, unknown</td>
</tr>
<tr>
<td>local stakeholders’ influence on contract terms</td>
<td>high, low, none</td>
</tr>
</tbody>
</table>

The coding process allows a summary of the evidence collected and the development of a complete picture of the huge quantity of information included in the newspaper articles and direct interview transcriptions. Our objective is to illustrate which opinions concerning the role of diverse stakeholders in Benelli’s acquisition process were shared. This picture represents the emerging pattern identified by the researchers used to explain the case.

4.2.2 Newspaper analysis

The first step in our research began with the analysis of all articles appearing in local newspapers. Our goal was to understand local community’s perceptions through them.

Newspapers presented a similar point of view and mainly reported opinions of the following stakeholders: workers, trade unions, Benelli’s ownership, Benelli’s top management, the government, trade and industry associations, and the community itself. Surprisingly, no information about suppliers, distribution companies and providers of funds such as banks emerged, nor were there considerations of their position made by other subjects.
As shown in Table 1, the most influential stakeholders in the search and selection of a possible buyer were the Merloni’s representative, trade unions and the local government. Their behaviour, however, differed significantly. While the Merloni family and trade unions proactively began to search or ask for alternatives, local political and economic institutions were pulled into the problem by other actors (trade unions and the QJ Group itself, which asked the mayor of Pesaro for support).

### Table 1  Role of local stakeholders as reported in newspapers

<table>
<thead>
<tr>
<th>Newspaper analysis</th>
<th>Local stakeholders</th>
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<tbody>
<tr>
<td></td>
<td>Workers</td>
</tr>
<tr>
<td>Influence on partner’s selection</td>
<td></td>
</tr>
<tr>
<td>High</td>
<td></td>
</tr>
<tr>
<td>Low</td>
<td></td>
</tr>
<tr>
<td>None</td>
<td></td>
</tr>
<tr>
<td>Stakeholders’ behaviour</td>
<td></td>
</tr>
<tr>
<td>Proactive</td>
<td></td>
</tr>
<tr>
<td>Reactive</td>
<td></td>
</tr>
<tr>
<td>None</td>
<td></td>
</tr>
<tr>
<td>Stakeholders’ expectations/interests</td>
<td></td>
</tr>
<tr>
<td>Maintaining the local setting</td>
<td></td>
</tr>
<tr>
<td>Safeguard jobs</td>
<td></td>
</tr>
<tr>
<td>Safeguard category’s economic interests</td>
<td></td>
</tr>
<tr>
<td>Benelli know-how</td>
<td></td>
</tr>
<tr>
<td>Benelli brand</td>
<td></td>
</tr>
<tr>
<td>Community welfare</td>
<td></td>
</tr>
<tr>
<td>Not known</td>
<td></td>
</tr>
<tr>
<td>Influence on contract terms</td>
<td></td>
</tr>
<tr>
<td>High</td>
<td></td>
</tr>
<tr>
<td>Low</td>
<td></td>
</tr>
<tr>
<td>None</td>
<td></td>
</tr>
</tbody>
</table>

Among the different stakeholders, trade unions appear to be the most demanding. They wanted to safeguard the local plant, all jobs and existing wage levels. They expected Benelli’s brand protection and future investments in R&D, since this would assure the
continuing well-being of the community. Government and workforce exceptions were similar. The Merloni family also claimed to be interested in community welfare and in the preservation of the factory, jobs and brands, in addition to attaining acceptable remuneration for the deal. Thus, the community seems to believe that all stakeholders care about possible job losses.

Differences in stakeholders’ roles emerge with reference to contract’s subscription. Only the ownership and trade unions appear to have had a significant influence on contract terms (probably thanks to the Italian law which requires the direct involvement of trade unions in case of company acquisition and allows them to sign a binding agreement on the number of jobs that would be retained by the new owner).

4.2.3 Interviews with key actors among local stakeholders

4.2.3.1 Trade union’s representative

We contacted the trade union’s representative most frequently cited in newspapers. In his opinion, the main actors that influenced the negotiation phase were the employees (workers and managers), trade unions, the local government and the newspapers (as an expression of community belief). Among these, trade unions had a strategic role in establishing informal relationships among Benelli’s employees, journalists and local authorities.

In his perception, trade union and local government interests focused not only on safeguarding jobs, but also on keeping Benelli’s heritage local in terms of social capital, know-how and image. Although Benelli was a small business (in terms of number of employees and turnover), the informant believes that its history is profoundly connected to the social and economic development of the local community. Therefore neither the employees nor the local administration wanted to lose an entire piece of the local industry. Finally, in his opinion, trade unions and the local government had a slight influence in the definition of contract terms.

Table 2 Interview held with a representative of trade unions

<table>
<thead>
<tr>
<th></th>
<th>Local stakeholders</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Trade union’s representative</strong></td>
<td>Workers</td>
</tr>
<tr>
<td>Influence on partner’s selection</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>Low</td>
</tr>
<tr>
<td></td>
<td>None</td>
</tr>
<tr>
<td>Stakeholders’ behaviour</td>
<td>Proactive</td>
</tr>
<tr>
<td></td>
<td>Reactive</td>
</tr>
<tr>
<td></td>
<td>None</td>
</tr>
</tbody>
</table>
4.2.3.2 The mayor of the City of Pesaro

Among the different political authorities representing the local government, we decided to interview the mayor of Pesaro. He appeared more influential than representatives of the province and Marche Region. From his point of view (see Table 3), only Merloni family members and trade unions had a relevant role in buyer section. The City of Pesaro and other political organisations contributed to the operation only at the request of trade unions and the Merloni family. The mayor attributed great sensibility to the main shareholder regarding local economic and social conditions, listing among their expectations the same hope for job preservation and local welfare as the government had. He stated that despite stakeholder demands to preserve Benelli from a risky marriage with the Russians, only shareholders really had the power to select the buyer and define contract details.
Table 3  Interview held with a representative of the local government

<table>
<thead>
<tr>
<th>Mayor of the City of Pesaro</th>
<th>Workers</th>
<th>Top managers</th>
<th>Suppliers</th>
<th>Providers of funds</th>
<th>Trade unions</th>
<th>Government</th>
<th>Trade and industry associations</th>
<th>Community</th>
<th>Shareholders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Influence on partner’s selection</td>
<td>High</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>Low</td>
<td>x</td>
<td>x x x x x</td>
<td>None</td>
<td>x</td>
</tr>
<tr>
<td>Stakeholders' behaviour</td>
<td>Low</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>None</td>
<td>x</td>
<td>x</td>
<td>Reactive</td>
<td>x</td>
</tr>
<tr>
<td>Stakeholders' expectations/interests</td>
<td>Proactive</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>Reactive</td>
<td>x</td>
<td>x</td>
<td>None</td>
<td>x</td>
</tr>
<tr>
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<td>x</td>
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<tr>
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<td>Safeguard jobs</td>
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<tr>
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4.2.3.3 Benelli’s top management

We interviewed the general manager and the CFO of Benelli who were in charge before and after the sale to QJ Group. Both expressed a similar view of the situation (see Table 4). According to them, the most influential stakeholders in the selection phase were the ownership, the government, trade unions and the top management team itself. However, only the Merloni family (with some professionals) and the top management team were actively seeking possible buyers. Trade unions and the government became interested in the operation only when some managers contacted them to highlight potential risks of selling to the Russians for the City of Pesaro and its inhabitants. They stated that other firms, entrepreneurs and suppliers, located both inside and outside the region did not really care about the future of Benelli. Local entrepreneurs did not take
part in the discussion, although they were somewhat concerned about the arrival of foreigners (especially the Chinese) who could reap Italian technical know-how and threaten the stability of local trade by introducing low-cost bikes and other products.

Lastly, the top management recognised that the ownership could freely decide to sell to either of the prospective buyers. Trade unions, managers and the government had a limited power and could only try to dialogue with the Merloni family.

Table 4 Interview held with the top management

<table>
<thead>
<tr>
<th>Benelli’s top management</th>
<th>Local stakeholders</th>
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</thead>
<tbody>
<tr>
<td><strong>Influence on partner’s selection</strong></td>
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</tr>
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<td>Low</td>
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<td><strong>Stakeholders’ behaviour</strong></td>
<td><strong>Proactive</strong></td>
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<td>Safeguard jobs</td>
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<td>Safeguard category’s economic interests</td>
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<td>Benelli brand</td>
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<td>Community welfare</td>
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<td>Not known</td>
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</tr>
<tr>
<td><strong>Influence on contract terms</strong></td>
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<tr>
<td></td>
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</tbody>
</table>

4.2.3.4 The shareholders’ representative

Lastly, we interviewed the representative of the Merloni family who was in charge of looking after the deal and confirmed the difficulty of finding an Italian buyer.

In his perception, the Chinese QJ Group contacted the local government to positively influence the community’s opinion. However, he believes that the proprietorship steered
from the Russian buyer to the Chinese QJ Group not because of local community’s pressure, but because the Merloni family – which is involved in several other businesses in the territory – intend to preserve the local welfare. In his opinion, workers, suppliers, trade unions and industry associations were more interested in safeguarding their own category’s interests than they were worried about the loss of Benelli’s brand and know-how. Similar to the other subjects interviewed, he stated that in the negotiation phase no local stakeholders had significant power to influence the contract terms.

**Table 5** Interview held with the shareholders’ representative

<table>
<thead>
<tr>
<th>Shareholder’s delegate</th>
<th>Local stakeholders</th>
</tr>
</thead>
<tbody>
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<td>Workers</td>
</tr>
<tr>
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<td>High</td>
</tr>
<tr>
<td>Low</td>
<td>x</td>
</tr>
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<td>None</td>
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<tr>
<td>Stakeholders’ behaviour</td>
<td>Proactive</td>
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<td>Stakeholders’ expectations/interests</td>
<td>Maintaining the local setting</td>
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<td>Influence on contract terms</td>
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<td>Low</td>
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</table>
5 Discussion

Below we analyse which opinions were shared and the conflicting points of view.

5.1 The activism of trade unions, local government and community

Both the actors interviewed and newspaper articles suggest that Benelli’s acquisition was not a mere buyer-seller financial negotiation; rather, there were three stakeholders - trade unions, the local government and the community - who played an important role in the partner selection phase. Thus, there is a common interpretation that the proprietorship decided to not sell to a potential buyer perceived as hostile by the community.

What happened can be explained at the light of stakeholder theory and the perspective of TSR.

In the Marche Region, SMEs that boast a long-lasting involvement with the local community are part of networks strongly characterised by a feeling of rootedness or embeddedness – intended as a sense of identity, shared values, and membership in a territorial community. Benelli is undoubtedly a famous brand and a source of community pride, and it has always been active in preserving the memory of the Italian motorcycle industry (see the Italian Register Benelli and the Benelli Museum) and fostering competence in the mechanical sector. For these motives, Benelli is considered not only a private company, but also a form of cultural heritage for the inhabitants of the area. This explains that not only employees and trade unions were interested in maintaining Benelli’s local setting but also local governments and communities were involved in preserving Benelli’s brand and know-how.

This case confirms that in specific contexts, in which individuals share communal values rooted in the local history, there is a sense of social responsibility diffused throughout the territory which favours a form of economic development strictly connected to the local values. Local communities can create a cultural, institutional, political and social milieu that helps reconcile new industrial activities with the identity and traditional values of local society.

It is therefore this synergy of immaterial socio-cultural factors that, in our opinion, create the conditions that determine collective and individual attitudes favouring attention to the community welfare and social responsibility.

5.2 The non-influential role of other local stakeholders (i.e., banks, suppliers)

The marginal role played by suppliers and providers of funds emerging from both newspaper articles and interviews can be explained by the fact that those actors (considered as a category of stakeholders and not as individuals) would not incur relevant financial loss in case of plant closing or relocation. In fact Benelli is a small firm, whose ordinary provisions were not significant for local suppliers. Furthermore, local banks were not worried about Benelli’s financial distress, because its debts were guaranteed by the shareholder family. Thus banks and suppliers had no reason to play an active role in the acquisition process in order to safeguard their interests.
5.3 The central role of the main shareholder

Based on collected evidence, only the main shareholder had the real power to choose the buyer and to define contract details. Therefore, its decision to move from a potential buyer perceived as hostile by the local community to another one should be fully discussed.

It was not possible to gather detailed information on the deal’s financial figures, however the shareholder’s delegate revealed that long-term local consensus was considered more convenient by the Merloni family. This decision can be explained from an economic point of view through stakeholder theory. Indeed, the Merloni family still maintains several businesses in the Marche Region. Selling Benelli to a buyer perceived as not interested in maintaining its local roots could damage Merloni’s reputation and existing cohesive relationships with local authorities, banks, trade unions and workers – which, in the long run, translates into a reduction of profit.

In addition, shareholder behaviour can be explained by its strong ties with the local community, which are based on a perceived common culture and traditional values. Such a sentiment emerges from the delegate interview; he attested to the owner’s interest in safeguarding Benelli’s brand and community welfare in addition to protecting his economic interests.

5.4 Understanding different points of view

The significant differences that did emerge regarded informants’ beliefs in the importance of the role different stakeholders played in the acquisition process and the motivations that had driven their behaviours.

Every interviewee argued that the contribution of his stakeholder category was the most relevant, with respect to what was perceived by other informants. Both the trade union representative and Benelli’s top managers, as well as the owner’s representative, felt that it was their category that had the protection of Benelli’s cultural heritage and know-how closest to their hearts, while they attributed mere utilitarian interests to their counterparts.

Undoubtedly, these diverse perceptions depend on the fact that single individuals were interviewed. Individuals derive their opinions from personal (and even partial) understanding of the facts, as well as from their roles in ‘playing the part’ which always contrasts those caring for ownership’s interests and those who represent workers’ interests.

We therefore repeat that informants cannot be neutral subjects with respect to the events. Their own understandings of the diverse and multiple points of view can allow us to capture, in a profound way, the complexity of the phenomenon examined here.

6 Conclusions

TSR is based upon formal and informal relationships between individuals, private (profit and non-profit) organisations and public actors sharing common values and ethical principles, which facilitate the convergence of their diverse expectations, forces, advantages and objectives. We posit that this approach is useful to understand the process
surrounding the acquisition of SMEs located in territories where these kinds of relationships continue to exist.

The case study demonstrates how the will to preserve a common historical, social and cultural identity has not only mobilised the workers (aiming to safeguard jobs), but the local community as well. This was achieved through the media and institutional representatives (the mayor *in primis*), who were able to de-legitimise a potential buyer planning to relocate Benelli abroad.

Although stakeholders do not always correctly perceive other stakeholders’ roles and behaviours (tables demonstrate that each person interviewed described himself and his stakeholder category differently from what others interviewees said), common values can be strong enough to influence the selling decision of the ownership. This is especially true when stakeholders do not behave as separate categories, but search for other stakeholders’ involvement (as in the Benelli case), creating a sort of reinforced network.

Nevertheless, the proprietor remains the only stakeholder to have decision-making power, both in selecting a potential buyer and in the defining the contractual terms. The Merloni family preferred to sell the business to a buyer who seemed to offer more guarantees to preserve the continuity and development of Benelli because this helped maintain consensus among the principle economic and institutional actors of the area. However, the interests towards preserving the well-being of the territory from which the ownership comes cannot be denied.

These findings suggest that rethinking the acquisition process in terms of social responsibility can be a powerful approach, both from an explicative and a normative point of view. This approach focuses on behaviours and expectations of the target company’s stakeholders, and allows the researcher to better understand what takes place in such operations and advocates the company to reconcile the diverse stakeholders’ interests in the future, or else possible problems will arise. Moreover, it suggests considering the different perspectives and interests claimed before closing the deal, while M&As literature is mainly focused on managing frictions in the post-merger phase.

On the one hand, the buyer should try to interact positively with the firm’s stakeholders by engaging them from the very beginning of the acquisition process. Its communication must move beyond the traditional press release and be directed towards both analysts and minority shareholders (as it occurs with listed companies), as well as managers, employees, suppliers, clients and local institutions.

On the other hand, the government and local authorities are invited to consider that the acquisition of companies embedded in their local business and social contexts can lead to the loss of not only a firm’s specific know-how, but also of a piece of the network upon which the local industrial cluster and the community welfare are based. The government should consider which policies may help avoid these negative effects during the M&A process, especially in Italy, where businesses stressed by the worldwide financial crisis are increasingly sold to new players from emerging economies.

Finally, the case study reveals that the buyer must pay close attention to preserving the social capital that nurtures Benelli’s capacity to create value. Indeed, the know-how that Benelli had acquired throughout time (and that had initially attracted the Chinese firm) is not located in patents or in formalised procedures within the company (the ‘structural capital’), but rather in the passion, in the capacity and in the understanding of its workers (the ‘human capital’) and, above all, in the relationships that this organisation have cultivated with a community interested in maintaining and developing sectorial competence *in situ*.
In this sense, we argue that a mere siphoning of Benelli’s technical understanding to centres of research and development may provide short-term advantages, since Benelli’s capacity to produce innovation is, in our opinion, strongly connected to relationships that connect the firm and its workers with the territory.

The study of one single case, however, is not enough for a theoretical generalisation of our findings. Furthermore, in our opinion, this approach can be extended only to other local contexts where business and social actors base their strategies on local cohesive relationships.

Maintaining the same theoretical framework, ongoing research should follow up in these two areas:

- the extension of the same research questions to other similar case studies
- the development of the same case study:
  a. including the buyer’s point of view in order to investigate its vision, its perception of legitimacy gaps and possible actions undertaken as a response to negative perceptions of relevant publics
  b. moving from the acquisition phase to the merger phase, in order to understand if stakeholders can influence the integration of organisational aspects, managements systems and company cultures.

References


Rethinking the cross-border acquisition process


